

FUNDING AND DISTRIBUTION POLICIES PENSION RATE STABILIZATION AND OTHER POST EMPLOYMENT BENEFITS (OPEB) PROGRAMS

Purpose and Introduction

The purpose of this Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Funding Policy ("Policy") is to establish a methodology and a process for funding current and future costs associated with the City's contractual obligations to provide pension and retiree medical benefits as set forth in the City's labor agreements and other employment documents. This policy shall be used in conjunction with Investment Guidelines/Policies adopted by the City Council.

Adoption and Implementation

The City Council is responsible for adopting this Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Funding and Distribution Policy, and for approving any significant revisions. The City Manager, or his/her designee, is responsible for developing administrative procedures to implement this Policy. In this role, the City Manager, or his/her designee, is authorized to make minor administrative changes in the Policy as long as they are intended to carry out the purpose of this Policy and will not have any significant policy impact. The City Council will review and approve this policy to ensure it meets the current and future needs of the City.

Trust Funds

The City has established two separate irrevocable trusts under Internal Revenue Service Code Section 115:

1. Other Post Employment Benefit (OPEB) trust. This was created to pre-fund the City's liabilities for retiree medical programs.
2. Pension Rate Stabilization Program (PRSP) trust fund. This was established to set aside funds to stabilize pension rates

In accordance with federal law, once the City transfers funds into the trusts, funds may be utilized only for payment of OPEB costs or employee pensions. Further, they may not be comingled or used for cross purposes.

Both trusts are designed to achieve a higher rate of return on investments than that earned on the City's investment portfolio. Those funds are then used to address the specified purpose in a cost effective manner.

Governance and Administration of the Trusts

The City Manager and staff have overall responsibility for the Trust funds and will develop and manage procedures in accordance with the City Council's adopted policies.

Asset Allocation Investment Strategy

Both trust funds have investment managers that provide options for investing funds. It is the City Council's role, delegated to the Finance Subcommittee, to select the appropriate investment option commensurate with the risk tolerance acceptable to the City.

Purpose: OPEB Trust Funds

Investment Management: CalPERS

Investment Strategy: #2 (subject to periodic rebalancing by CalPERS)

Global Equity	40%
Fixed Income	39%
TIPS	10%
Commodities	3%
REITs	8%

Purpose: Pension Rate Stabilization Program

Investment Management: HighMark Capital Management

Investment Strategy: Moderate

Strategic Range:

Equity	40% - 60%
Fixed Income	40% - 60%
Cash	0% - 20%

Contributions and Withdrawals

Other Post-Employment Benefits (OPEB) Trust Fund Contributions

- Annual contributions shall be, at minimum, equal to the Required Annual Contribution as determined through periodic (but no less than biennial) valuation performed by a CalPERS approved actuary.
- Annual contributions may be made from City funds or, in the event the trust is "super-funded" (e.g., actuarial value of assets exceeds the present value of benefits) contributions are derived from interest earnings and/or excess plan assets on deposit at CalPERS.

Other Post-Employment Benefits (OPEB) Trust Fund Withdrawals

- The City will advance the benefit payments to retirees during the fiscal year and seek reimbursement from the trust at the end of the fiscal year. Such reimbursements will be equal to the amount paid to retirees for OPEB.
- The reimbursement must be requested from CalPERS no later than July 31 after the completion of the fiscal year.

Pension Rate Stabilization Program Trust Fund Contributions

- Annual Contributions shall be based on the City Council adopted budget for any given fiscal year. The annual minimum contribution target as of July 2017 is \$250,000.
- Additional contributions shall be made at the direction of City Council and may include funds received on a one-time basis (such as sale of property) or from unreserved fund balance in the General Fund.

Pension Rate Stabilization Program Trust Fund Withdrawals

- All withdrawals are subject to approval of the Finance Subcommittee and the full City Council
- Withdrawals may be considered in the event:
 - It is economically advantageous for the City to pay down specific unfunded pension liabilities given the carrying costs at CalPERS
 - The annual CalPERS employer pension contribution rate increase (in dollars) exceeds the growth rate of the City's General Fund for that same fiscal year. For example, if employer pension contribution rates increase \$2 million while General Fund growth is estimated at \$1.5 million, City Council may consider a withdrawal.
 - The City has a structural deficit in the General Fund, defined as core (on-going, not one-time) expenditures exceeding core revenues
 - General Fund policy reserves and Economic Uncertainty reserves are utilized for on-going operations, including transfers subsidizing other funds
 - Other unanticipated economic conditions, fiscal demands or other needs.